TEACHERS'
PENSION PLAN

You asked us • New board members • Fast facts

pensionwise

A Newsletter for Ontario Teachers • Winter 2005 • Issue 9

How does occasional teaching affect your pension? PAGE 2

DAVID TULLOCH has worked at dozens of schools during 10 years as an occasional teacher for the Toronto and Peel District School Boards.

INSIDE THIS ISSUE

Five facts you should know about occasional teaching

Many members become occasional teachers at some point in their careers. If you're working as an occasional teacher, or thinking about making the switch, here are five key facts you need to know about your teachers' pension.

PHOTOGRAPHY EVAN DION

DAVID TULLOCH loves the flexibility, peer teaching and variety that occasional teaching provides.

1 YOU MUST CONTRIBUTE TO THE PLAN

Since 1997, occasional teachers have been required to contribute to the plan. Before then, participation was optional in some cases.

2 ONLY 10+ DAYS EARNS A YEAR TOWARD YOUR 85 FACTOR

You only need to work more than 10 days in the school year to gain one qualifying year in the pension plan. Qualifying years, combined with your age, determine when you're eligible to receive a pension. Once you reach your 85 factor (age + qualifying years = 85), you're entitled to retire with an unreduced pension.

There is one important exception to this 10+ day rule: if the first or last year of your teaching career is a partial year, you'll receive credit for the portion of the year worked. For instance, if you began your teaching career halfway through the school year, you would receive a half-year of qualifying service for that year of teaching.

3 CREDIT IS GIVEN FOR ACTUAL TIME WORKED

Credit is the actual time you contribute to the pension plan, measured in years, months and days. Credit, combined with your average salary, is used to calculate the amount of your pension.

When you work less than full time, you receive credit for only the time you work and contribute to the plan. For example, if you work only 11 days during the school year, you will receive only 11 days credit for that year. If you work half days, you will receive 0.5 days of credit for every day you work.

4 OCCASIONAL TEACHING CAN SOMETIMES LOWER PENSION

If you're close to retirement and teaching on a part-time contract, supplementing your income with an occasional supply-teaching assignment may reduce your pension. In some instances, this can result in hundreds of dollars less in pension per year.

The rate of pay for occasional teaching can be significantly less than the rate for part-time contract work. Both rates are used when determining your annual rate for that school year. This could lower your average best-five years' salary and result in a smaller pension. If you're nearing retirement, contact us before accepting that occasional teaching job to see how it could affect your pension.

5 CONSIDER INFLATION PROTECTION VS. QUALIFYING YEARS

Are you considering returning to work as an occasional teacher after a lengthy break in your career? If yes, get a pension estimate first. By returning to work, you will add pension credit and qualifying years to the service you left in the plan. Adding qualifying years will help you reach your 85 factor earlier. However, there are other considerations. Returning to work can eliminate the inflation protection that increased your deferred pension. In some circumstances, the inflation increases can actually be worth more than the extra credit you will accumulate when you return to work. ■

Could a funding shortfall affect you?

Future pension costs continued to grow faster than plan assets in 2004, largely as a result of dropping interest rates.

The *Report to Members,* distributed to you last March, showed a $6.2 billion funding shortfall in the Teachers' plan, even though investment returns in 2003 were the third-best in the fund's history. The shortfall is expected to be even bigger in 2005.

Even though you may not start your pension for many years, it's important to understand how a shortfall could affect you now and in retirement.

PLAN ASSETS AND BENEFITS MUST BALANCE

Responsibility for setting benefit and contribution levels lies with the plan's co-sponsors – the Ontario Teachers' Federation (OTF) and the Ontario government.

To protect your valuable pension benefits in the future, the co-sponsors must ensure there is a balance between the two sides of the pension equation:

- assets (contributions and investments); and
- liabilities (the cost of future pension benefits for all plan members).

If the two sides are equal, the pension plan is fully funded, meaning the plan's assets cover the estimated cost of benefits for all members.

If assets outweigh the cost of pension benefits, there is a surplus, which can be used for a rainy day fund, benefit improvements, or contribution reductions. For example, the Ontario government and OTF used the $18 billion surplus generated in the 1990s to eliminate the Ontario government's special payments and to improve benefits for members with such enhancements as a permanent 85 factor and higher pensions after age 65.

If the cost of benefits outweighs assets, there is a funding shortfall that must be addressed within three years. The co-sponsors could make up the shortfall by increasing contributions for teachers and the government or decreasing future benefits for future retirees. There has not been a contribution rate increase since 1990.

WHAT'S NEXT?

Pension plans are required by law to balance plan assets and the cost of benefit obligations. If the shortfall persists, the law requires the co-sponsors to develop a plan by 2006 to bring the fund back into balance. This doesn't mean the co-sponsors need to wait until 2006 before making funding decisions. Once a year, they review the plan's funding status and can negotiate changes to ensure the plan's continued long-term health.

WHAT ARE OTHER PLANS DOING?

To keep their plans fully funded, several public sector pension plans are increasing contribution rates or ending contribution reductions. One plan is removing guaranteed inflation protection for pension benefits members will accumulate in the future.

MORE INFORMATION

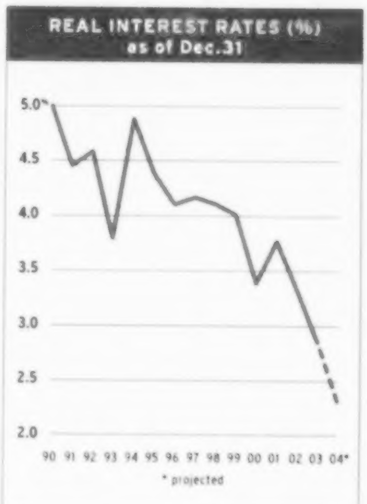
You will receive more detailed information on the plan's financial status in the *Report to Members,* to be delivered to you in April. For general information on plan funding, read *Focus on Funding* in the publications section of our website at **www.otpp.com.** ■

Low interest rates increase pension costs

Interest rates continued to drop in 2004, substantially increasing the future cost (and, therefore, value) of your pension.

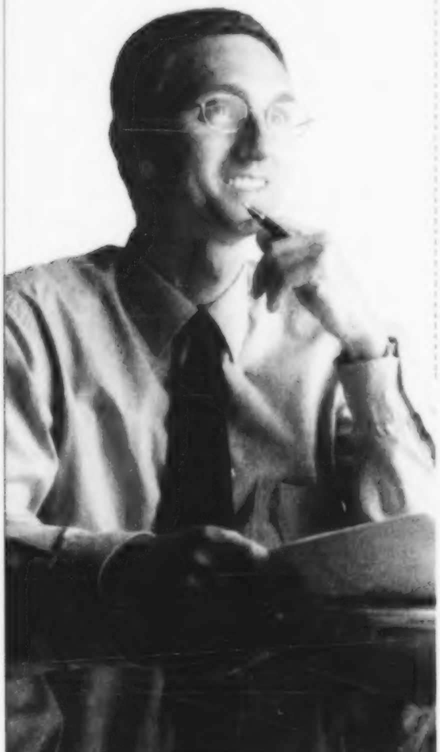
To calculate the amount the plan needs to pay all pensions promised in the future, the plan's independent actuary uses real (after inflation) interest rates. When real interest rates rise, pension costs drop. When real interest rates drop, pension costs rise. A one per cent change in real interest rates can result in a 15 per cent change in the projected cost of pension benefits.

For example, if real interest rates are three per cent, the plan needs $745,000 to pay a typical $40,000 pension. If rates drop to two per cent, the plan needs $855,000. ■



Stocks generate good returns for pension plan

As a member of the Teachers' pension plan, you indirectly own a piece of some of the biggest companies in the world, from Microsoft to Maple Leaf Foods. About half of the $79-billion pension fund is invested in Canadian, U.S. and non-North American equities.



BRIAN GIBSON'S investment teams search the world for stocks they believe are undervalued.

We passively and actively manage our stock holdings to achieve the best returns possible at a reasonable level of risk.

Passive management involves buying a standard basket of stocks that includes all the stocks listed in market indices around the world. We hold shares in about 2,000 companies, worth more than $20 billion, listed on exchanges such as the TSX in Canada, the S&P 500 in the U.S. and the FS100 in England.

We also search the world for stocks we believe are undervalued, reflecting our commitment to do more than mirror the market indices. About $14.5 billion of our equities are actively managed.

In the search for value, our teams of portfolio managers and stock analysts evaluate a wide range of factors that can affect a company's performance including, financial performance, operations, industry position, management quality, long-term business plan, board structure, environmental practices and labour relations.

"It can take several years for the market to recognize the value of a company's shares, so we take a long-term approach to our investments," said Brian Gibson, Senior Vice-President, Public Equities.

"Despite the long-term approach, we continuously reassess our positions because world conditions can change at the drop of a hat. We cannot afford to sit still.

"By actively managing our assets, we have made hundreds of millions more than we would have by simply replicating the holdings on stock markets around the world.

"I'm proud of our track record and the value we provide to our members," Brian said. ■

EQUITIES

Close to half of our equities portfolio is invested in Canada.

CEO wins business leader award

Claude Lamoureux, President and CEO of your pension plan, has been named the Laurier Outstanding Business Leader of the Year for helping to improve corporate governance practices in Canada.

The annual award from Wilfrid Laurier University in Waterloo recognizes business leaders who exemplify leadership excellence.

The university commended your pension plan for its "excellent service and innovative investment program," as well as its advocacy of governance practices that reflect shareholder interests.

"I'm pleased that a commitment to enhancing shareholder value is recognized as a key quality of today's and tomorrow's business leaders," Claude said in accepting the award.

"Corporate governance is a means – an important means – to deliver good investment results.

"We care about corporate governance because it affects the long-term performance of the companies in which we invest and helps us secure the retirement of our members." ■

New standard introduced for calculating pension values

A new standard for calculating the commuted value of a pension goes into effect in Canada Feb. 1.

The commuted value is the equivalent amount you would need today to replace your future pension.

The commuted value of your pension is payable only if you:

- die before retirement;
- take a shortened life expectancy benefit; or
- transfer your pension benefit out of the plan if you leave teaching before age 50.

The new standard was developed by the Canadian Institute of Actuaries to reflect updated mortality tables, variable interest rates, and other factors.

WHAT IS CHANGING?

You may notice a change in the commuted value of your pension under the new standard. Whether it goes up or down depends on many different circumstances, including current interest rates.

Commuted values have always fluctuated with changes in interest rates, rising when rates drop and falling when rates rise. The new standard uses only variable interest rates, increasing the volatility of commuted values.

Commuted values also fluctuate with changes in individual circumstances. For example, they change over time to reflect increases in your age, pension credit and average salary.

Based on interest rates in effect in December, most commuted values would be higher if calculated under the new standard.

Your commuted value can be found on *i*Access, our secure member website. If you aren't registered for *i*Access, the number is reported in the *Personal Statement of Pension Benefits* you receive every fall. ■

Your pension plan is tops, reports Toronto Star columnist

Retirement savers can look to your pension plan for samples of good investment strategies, reports Toronto Star business columnist James Daw.

"Not that we could hope to do as well in retirement without becoming a teacher, or marrying one," Daw said in an Oct. 28 column.

"The plan does more with teachers' substantial contributions than we could do on our own. It's big and sophisticated and incredibly cheap to run compared with charges for professional management at banks, insurers and mutual fund companies.

"Nor would it be possible to closely mimic Teachers' investment strategies," Daw wrote.

This is because the fund has private equity opportunities, volume discounts for stock purchases, proprietary information and substantial pools of capital unavailable to an individual investor.

Daw's column is posted on our website at **www.otpp.com.** ■

Board pays tribute to the late John Lane

The Board of Directors lost a dedicated and valuable member when John Lane passed away in October. John, who was appointed to the board in 2000, was Chair of the Audit & Actuarial Committee and a member of the Human Resources & Compensation Committee. He was former Senior Vice-President of Investments for Sun Life Assurance Company of Canada. ■

NEWS

Fewer deductions stretch pension payments further than salary

You may not need as big a pension as you think you do.

Deductions take a big chunk out of your paycheque when you work. But in retirement, income tax is the only mandatory deduction and the rate of tax is generally lower to reflect your reduced income.

As our chart shows, a typical member retiring today receives a pension equal to 54 per cent of gross salary. The ratio climbs to 66 per cent when deductions are taken into account. Many financial planners agree you need 70 per cent of your pre-retirement income to live comfortably in retirement, although your lifestyle, expenses, debt and assets may dictate a need for more or less than that amount. ■

	Salary	Pension[1]	Pension vs. Salary
Before deductions	$70,000[2]	$37,700	**54%**
Income tax	15,029	7,066	
Canada Pension Plan	1,832		
Employment insurance	772		
Teachers' pension plan	5,582		
Federation dues	700		
After deductions	$46,085	$30,634[3]	**66%**

1. Assumes an unreduced pension for a member retiring with 29 years of credit. The cost of medical insurance and optional pension features, such as a higher survivor pension and the guaranteed 10-year option, have not been factored in. Keep in mind that the member's pension will drop by about $5,000 when the CPP reduction kicks in at age 65.

2. The member's best five-year average salary, on which her pension is based, is $65,000.

3. Assumes the basic tax exemption, pension income exemption and no medical insurance premiums.

Countdown to retirement

Here's what you need to do if you're planning to retire at the end of June.

JANUARY

If you haven't already done so, consider registering for *i*Access, our secure member website. You'll find important information there, including a calculator you can use to generate pension estimates and a presentation on survivor pension options.

Gather the documents required to support your retirement application (see You Asked Us, page 7). It often takes three months or more to replace misplaced birth or marriage certificates.

FEBRUARY

Contact us for a pension application kit or download a copy from the publications section of our website at **www.otpp.com**.

MARCH/APRIL

Complete and mail your pension application to our client services department.

See new presentations from comfort of home

You don't need to dress up to view our new presentations.

Two new audio-visual summaries – one on the value of inflation protection; the other on working after retirement – are delivered right to your home on *i*Access TV, part of our secure member website.

The segments, which are narrated by our pension benefits specialists, package complex pension information in easily digestible chunks.

"This is just one more way teachers can get information on specific pension topics whenever they need it," said Rosemarie McClean, Vice-President, Member Services.

Audio-visual segments on survivor benefits and buybacks were launched on *i*Access TV earlier last year.

In addition to viewing presentations, you can do the following on the secure member website:

- calculate the cost of buying back a leave of absence;
- retrieve personal pension correspondence in your confidential in-box;
- generate pension estimates based on various retirement scenarios;
- access a current interactive pension statement; and
- update your address and other personal information.

To register for the secure member website:

- visit **www.otpp.com;** or
- call 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m. ■

You Asked Us...

Q: What documents do I need to retire from the plan?

A: To retire, you need a photocopy of your birth certificate and, if applicable:

- your spouse's birth certificate;
- your marriage certificate or official declaration of a common-law relationship (for same- or opposite-sex partners); and
- a certificate of divorce or decree absolute, or a separation agreement, if your marriage ended while a member of the plan.

If you can't find a birth or marriage certificate that was issued in Ontario, contact the Registrar General at 416-325-8305 or 1-800-461-2156. It can take three or more months to obtain replacement copies of misplaced documents, such as birth certificates, so begin retrieving your documents early.

Q: How is the NHL lockout affecting our investment in the Toronto Maple Leafs?

A: We do not expect the lockout will substantially affect our long-term investment in Maple Leaf Sports and Entertainment (MLSE), which owns the Toronto Maple Leafs, Toronto Raptors and the Air Canada Centre. The Leafs, like most NHL teams, will take a short-term financial hit during the lockout. However, this will not affect our investment since we do not receive or rely on cash dividends from it. We are confident in the long-term future of the two sports franchises and the Air Canada Centre, and in the management team's ability to increase the value of the business under a new collective bargaining agreement.

Q: Will an end to mandatory retirement at age 65 affect my pension?

A: We do not think an end to mandatory retirement will change teachers' retirement patterns. The average age for a teacher retiring today is 56 and most teachers choose to retire shortly after they reach their 85 factor. Fewer than two per cent of members begin collecting a pension at age 65, and that includes people who kept their funds in the plan when they left teaching years ago.

Q: When will you release your financial results?

A: By early April, you should receive the *Report to Members*, a summary of our 2004 annual report. You can also tune in to a live presentation of our financial performance at **www.otpp.com.** Watch for notices of the webcast at your school and on our website.

Q: How is my pension affected by a 4 over 5 leave?

A: Your pension is not affected. You make contributions and build benefits as if you are working full time for each of the five years.

Q: I take, on average, two non-paid "personal" days a year. Can I buy these back?

A: Yes, employer-approved leaves for such purposes can be purchased. For details on purchasing credit for an absence, consult our *Buybacks for Absences* booklet, available at **www.otpp.com.** You can also obtain buyback estimates and view a buyback presentation on our secure member website. ■

ILLUSTRATION: KATHRYN ADAMS

FAST FACTS

10%

The approximate annual increase in your pension after age 65, brought about by a 2001 benefit improvement that lowered the CPP offset.

2.5 years

How much earlier most teachers can retire with an unreduced pension as a result of the introduction of a permanent 85 factor.

$700,000

The value of an average teacher's pension at retirement.

$1.1 million

The amount a typical teacher, retiring today with a $40,000 pension, can expect to collect in pension payments in today's dollars.

Two new directors join board

The Ontario Teachers' Federation (OTF) has appointed two new members to your pension plan's Board of Directors. Eileen Mercier and Carol Stephenson replace Lucy Greene and Ann Finlayson, who reached the maximum eight years' service on the board at the end of 2004.

The board has nine directors who serve for two-year renewable terms. Half of the directors are appointed by the OTF and half by the Ontario government. The co-sponsors jointly select a chair.

Eileen Mercier brings 30 years of business experience to her new role. Eileen is a director of CGI Group Inc., Winpak Ltd., Quebecor World Inc., Shermag Inc., Teekay Shipping Corp., Hydro One Inc., ING Bank of Canada, York University and the University Health Network. Eileen was Senior Vice-President and Chief Financial Officer of Abitibi-Price Inc. before establishing her own management consulting firm.

A Fellow of the Institute of Canadian Bankers, Eileen holds an MBA from York University and has won awards for her business and community achievements.

Carol Stephenson, Dean of the Richard Ivey School of Business, also has more than 30 years of business experience. After rising to the executive ranks of Bell Canada, Carol worked as President and CEO of both Stentor Resource Centre Inc. and Lucent Technologies Canada.

Carol has won numerous business and community achievement awards and is a director of Sears Canada, ING Canada, Union Energy Waterheater Income Trust, the Ottawa Airport Authority and various government bodies. A graduate of the University of Toronto, Carol completed executive management programs at the University of California and Harvard University. She holds an honorary doctorate in engineering from Ryerson University. ■

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We appreciate your comments about anything you read in *Pensionwise*. Please contact Debra Hanna at (416) 730-5351 or 1-877-812-7989, or e-mail: dhanna@otpp.com

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